

Message Text

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53

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-*5 CIAE-00 COME-00 FRB-02 INR-10

* NSAE*-00 XMB-07 OPIC-12 LAB-06 SIL-01 INT-08 SCEM-02

DOT-00 DRC-01 /174 W

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P R 101715Z DEC 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC PRIORITY 4293

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

AMEMBASSY PANAMA

AMEMBASSY CARACAS

LIMITED OFFICIAL USE SAN SALVADOR 4579

E.O. 11652: N/A

TAGS: ENGR; EGEN: ES

SUBJ: PETROLEUM SITUATION

REF: SAN SALVADOR 3393

1. SUMMARY: FOR THE PRESENT, PETROLEUM SUPPLIES TO EL SALVADOR ARE UNAFFECTED BY THE WORLD'S PETROLEUM CRISIS. THE LOCAL REFINERY, RASA, IS COMPLETELY SUPPLIED FROM VENEZUELA AND ESSO CANNOT PREDICT WHEN OR IF THE SITUATION WILL BECOME DIFFICULT. ECONMIN HIDALGO QUEHL AND INDUSTRY HEADS JOINT Y ANNOUNCED TO PUBLIC DECEMBER 5 THIS SITUATION AND URGED THE PBLIC TO FOLLOW THE GOES' ATTEPT TO CONSERVE SUPPLIES. HIDALGO REFERRED TO CLOSE GOES/INSUSTRY COOPERATION IN MATTER OF CONTINGENCY PLANNING AND IN DISCUSSING FUTURE NEED FOR NECESSARY, LIMITED OFFICIAL USE
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MINIMUM PRICE INCREASES, A COLLABORATION WHICH IN FACT EXISTS. THE ONLY EFFECTS NOTICED HERE ARE FROM EXTERNAL TRANSPORT SERVICES WHICH SUFFER FROM ALLOCATION CUTS AND A TEMPORARY SHORTAGE OF IMPORTED AVIATION GAS WHICH IS HURTING TACA AIR-LINES. END SUMMARY.

2. ECONMIN HIDALGO QUEHL, ALONG WITH REPRESENTATIVES OF ESSO, SHELL, CHEVRON, TEXACO AND THE ESSO/SHELL REFINERY, RASA, MET WITH THE PRESS NOON DECEMBER 5 AND PRESENTD A CAREFULLY PREPARED STATEMENT ON THE COUNTRY'S PETROLEUM SITUATION WHICH ALL MEDIA SUBSEQUENTLY CARRIED. HIDALGO SAID THE PETROLEUM SUPPLY IS NORMAL AND IT IS COMPLETELY SUPPLIED BY THE REBUBLIC OF VENEQUELA. THE SALVADORAN COMMUNITY SHOULD BE "TRANQUIL" BECAUSE AS LONG AS THE SUPPLY REMAINS NORMAL, IT WILL NOT BE NECESSARY TO PUT INTO EFFECT ANY RATIONING MEASURES. HOWEVR, HE FOREWARNED OF THE POSSIBLITY OF RESTRICTIONS AND SAID THAT THROUGH GOES/INDUSTRY COOPERATION EFFORTS WOULD BE MADE TO AVOID SHORTAGES WHICH COULD PARALYZE ANY SECTOR OF THE ECONOMY. FINALLY, HIDALGO SAID THE MINECON AND INDUSTRY WERE IN CLOSE CONSULTATION CONCERNING THE NEED FOR PETROLEUM PRICE INCREASES AND MINIMUM INCREASES WOULD BE AUTHORIZED IF NECESSARY TO AVOID DISRUPTIONS OF SUPPLY.

3. THEREFOE, THE PUBLIC HAS NOT BEEN DIRECTLY AFFECTED BY THE WORLD OIL CRISIS. INDIRECTLY, SALVADORANS ARE FEELING THE EFFECTS THROUGH DELAYS AND INCONVENIENCES IN PERSONAL OR CARGO TRANSPORT. GOES OFFICIALS ARE PARTICULARLY SENSITIVE TO THE PROSPECT OF THE INCREASING TRANSPORT SERVICES BILL ON THE BALANCE OF PAYMENTS AND VOICE RENEWED INTEREST IN A CENTRAL AMERICAN ANSWER TO THE PRICE HIKES OF THE SHIPPING CONFERENCES. THE GOES' CONTENTION THAT ALL REMAINS NORMAL IS OFFSET SOMEWHAT BY THE COMPANIES SUCCESSFUL INSERTION OF WORDS OF CAUTION, REMINDING THAT THE FUTURE IS HIGMLY UNCERTAIN. INDUS-TRY HAS MADE THE GOES AWARE OF THE FACT THAT LOCAL DEMAND GROWTH IS AVERAGING EIGHT PERCENT(A YEAR, EXCEEDING CONSIDERABLY THE GROWTH OF VENEZUELAN PETROLEA EXPORTS. THE XCELLENT RAINY WSEASON IN 1973 WILL AVOD LAST YEAR'S 70 PERCENT DEPENDENCE ON FOSSIL FUELS FOR GENERATION OF ELECTRICITY SINCE THE HYDRO-ELECTRIC SOURCE HOW HAS GOOD RESERVES. LAST YEAR RASA WAS PRODUCING BEYOND ITS RATED 14,000NBARRELS A DAY CAPACITY TO MEET THE UNUSUAL DEMAND FOR DIESEL. THE "SAVINGS" FROM THE LIMITED OFFICIAL USE
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ATTICIPATED LOWER DEMAND FOR ELECTRICITY GENERATION WILL MORE THAN SATISFY THE NEW DEMAND FROM MANY CONSTRUCIONS PROJECTS, ESPECIALLY THE CERRON GRANDE DAM. PETROLEUM NEEDS FOR AGRICULTURAL HARVESTING, MILLING AND TRANSPORT WOULD BE WELL SUPPLIED (SEE TOFAS 72).

4. THE ONE EVIDENT PROBLEM IS IN THE SUPPLY OF THE HIGH OCTANE AVIATION GAS WHICH IS AN IMPORTED PRODUCT. TACA'S USUAL SUPPLY IS DOWN OVER 95 PERCENT BECAUSE MOST OF THE LAST DELIVERY WAS DROPPED IN GUATEMALA (4000 BARRELS) SINCE STORAGE SPACE WAS UNAVAILABLE HERE. NORMALLY, THESE SUPPLIES WOULD BE TRUCKED TO EL SALVADOR WHEN STORAGE WS AVAILABLE, BUT THE GOG IS PROHIBITING ITS EXPORT. ANOTHER SHIPMENT IS

DUE IN EL SALVADOR JANUARY 10 AND IN THE MEANTIME ESSO IS NEGOTIATING WITH THE GOG FOR RELIEF. EL SALVADOR SHOULD HAVE LEVERAGE SINCE ESSO EXPORTS TO GUATEMALA ASPHALT FROM RASA.

5. THE UNCERTAINTY OF PRICE MOVEMENT HAS CHANGED INDUSTRY RESPONSES TO THE USUAL SOLICITATIONS FOR BIDS TO SUPPLY FUEL FOR 1974. FURTHER, THE MARKETING INDUSTRY IS CURRENTLY LOSING MONEY ON DIESEL AND KEROSENE. HENCE, COMPANIES ARE TELLING BUYERS LIKE EMKAY-TEER AT CERRON GRANDE, "RASA NOW BILLS AT 20 AND WE OFFER AT 23; IF YOU CAN GET A WAIVER FROM THE GOES FROM THE LOWER CEILING, WE'LL BID; IF NOT, WE BEG OFF." THE RASA SETS ITS SELING PRICES TO THE MARKETING COMPANIES MONTHLY AND THIS LED THE LATTER RECENTLY TO ASK ECONMIN HIDALGO FOR MONTHLY MEETINGS ON RETAIL PRICES AND HE APPEARED AGREEABLE. ACCORDING TO THE COMPANIES, RELIEF OBTAINED FROM PRICE INCREASES WON EFFECTIVE SEPTEMBER 16 (SEE REFTEL) IS NOT PERMITTING A BREAK-EVEN. ONE COMPANY REPORTS IT WILL LOSE \$100,000 AT THE RETAIL END IN 1973. THE FOUR RETAILING FIRMS RECENTLY PRESENTED A PROPOSED PRICE FORMULA TO THE MINECON WHICH PROVIDES A 10 PERCENT RETURN ON CAPITAL.

6. AN UNPUBLICIZED GOES TECHNICAL LEVEL PETROLEUM COMMISSION HAS BEEN ESTABLISHED. IT IS REPORTEDLY HEADED BY A LIC. M DOMINGUES OF THE MINECN'S INDUSTRY SECTION AND INCLUDES OFFICIALS FROM MINECON, THE CENTRAL BANK AND CONAPLAN. IT IS CHARGED WITH DEVELOPING CONTINGENCY PLANS FR ALLOCATIONS AND THE INDUSTRY HOPES TO CONTRIBUTE TO ITS WORK.
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7. COMMENT: EL SALVADOR'S FORTUNATE SITUATION IS DUE TO ITS TRADITIONAL SUPPLY FROM VENEZUELA AND THE GOES' WILINGNESS T UNDERSTAND THE ISSUES AND GO AT LEAST PART WAY WITH THE COMPANIES. THE COMPANIES, WHICH REPORTED GOOD RELATIONS WITH THE MINECON BEFORE, SAY THE NEW ECONMIN, DR. HIDALGO, IS MORE RESPONSIVE TO THEIR PROBLEMS AND THEY PREDICT EVEN BETTER INDUSTRY/GOES RELATIONS. WE DOUBT THE GOES WILL ACCEPT THE FORMULA WHICH GRANTS A 10 PERCENT RETURN ON CAPITAL BUT IT WILL XROBABLY AUTHORIZE PRICES WHICH KEEP THE FIRMS SEVERAL PERCENTAGE POINTS IN THE BLACK. THESE GOOD RELATIONS HAVE OBIATED THE NEED FOR THE COMPANIES TO SEEK EMBASSY INTERVENTION WITH THE GOVERNMENT ON THE PETROLEUM ISSUE.
MOSKOWITZ

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